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Federal Deposit Insurance Corporation Amended Restoration Plan

AGENCY: Federal Deposit Insurance Corporation (FDIC).

ACTION: Notice.

The Federal Deposit Insurance Act (FDI Act) requires that the FDIC's Board of Directors (Board) adopt a restoration plan when the Deposit Insurance Fund (DIF or fund) reserve ratio falls below the minimum of 1.35 percent or is expected to within 6 months.[1] Extraordinary growth in insured deposits during the first and second quarters of 2020 caused the DIF to decline below the statutory minimum of 1.35 percent as of June 30, 2020. On September 15, 2020, the FDIC established a Restoration Plan (Plan) to restore the DIF to at least 1.35 percent by September 30, 2028, maintaining the assessment rate schedule in place at the time.[2]

Under the Plan, the FDIC is monitoring deposit balance trends, potential losses, and other factors that affect the reserve ratio. While insured deposit growth rates remained elevated through the first quarter of 2021, such growth decelerated for the remaining quarters of 2021 through the first quarter of 2022 and was slightly above the historical average annual growth rate. Those insured deposits that resulted from extraordinary growth in the first half of 2020 and the first quarter of 2021 as the result of actions taken by monetary and fiscal authorities, and by individuals, businesses, and financial market participants in response to the Coronavirus Disease (COVID-19) pandemic do not appear to have receded as of the first quarter of 2022.

Unrealized losses on available-for-sale securities in the DIF portfolio contributed to a relatively flat DIF balance in the first quarter of 2022. As of March 31, 2022, the

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[1] 12 U.S.C. 1817(b)(3)(B) and (E).

[2] *See* 85 FR 59306 (Sept. 21, 2020). Under the FDI Act, a restoration plan must restore the reserve ratio to at least 1.35 percent within 8 years of establishing the plan, absent extraordinary circumstances. 12 U.S.C. 1817(b)(3)(E)(ii).

industry weighted average assessment rate nearly matched the pre-pandemic average, and has been consistently below the level projected when the Board originally adopted the Plan. Consequently, growth in insured deposits outpaced growth in the DIF, resulting in a decline in the reserve ratio of 4 basis points to 1.23 percent as of March 31, 2022.

The FDIC updated its analysis and projections for the fund balance and reserve ratio to estimate how changes in insured deposit growth and assessment rates affect when the reserve ratio would reach the statutory minimum of 1.35 percent. Based on this analysis, the FDIC projects that, absent an increase in assessment rates, the reserve ratio is at risk of not reaching the statutory minimum of 1.35 percent by the statutory deadline of September 30, 2028.

Assuming relatively favorable conditions, in which some of the excess insured deposits resulting from the pandemic are retained and the average assessment rate is higher than experienced over the last year, the FDIC projects that the reserve ratio would reach the statutory minimum of 1.35 percent close to the statutory deadline. Similarly, under a scenario in which no excess deposits are retained and the average assessment rate is lower, but the FDIC increases assessments by 1 basis point, the FDIC projects that the reserve ratio would reach the statutory minimum of 1.35 percent close to the statutory deadline. In both of these scenarios, any number of uncertain factors—including unexpected losses, accelerated insured deposit growth, or lower weighted average assessment rates due to improving risk profiles of institutions—could materialize and could easily prevent the reserve ratio from reaching the minimum by the statutory deadline. As a result, these scenarios carry higher risk that the FDIC would have to increase assessment rates in the face of a future downturn or industry stress.

The FDIC also projected the effects of a 2 basis point increase on scenarios that applied two sets of reasonable assumptions for insured deposit growth and average assessment rates. An increase of 2 basis points under both scenarios would result in the reserve ratio reaching the minimum of 1.35 percent approximately two years from now, building in a buffer in the event of uncertainties, as described above, that could stall or counter growth in the reserve ratio. Furthermore, reaching the statutory minimum reserve ratio of 1.35 percent ahead of the statutory deadline would mean that the FDIC would exit its Restoration Plan. If the reserve ratio subsequently declined below the statutory minimum, the FDIC would establish a new restoration plan and would have an additional eight years to restore the reserve ratio.

The banking industry remained resilient moving into the second half of 2022 despite the extraordinary challenges of the pandemic and recent economic uncertainties.[3] Strong liquidity and capital levels should help to mitigate any potential unexpected credit stress across loan portfolios. Given the relative strength in the condition of the banking industry over the past several quarters, increasing assessment rates beginning in 2023 would reduce the likelihood that the FDIC would need to later impose a pro-cyclical increase in assessment rates during a potential future period of banking industry stress.

On balance, the FDIC views a uniform increase in initial base deposit insurance assessment rates of 2 basis points as the most appropriate and most straightforward manner in which to achieve the objective of increasing the likelihood that the reserve ratio would reach the statutory minimum of 1.35 percent by the statutory deadline of September 30, 2028. Therefore, the FDIC is amending the Plan to incorporate a uniform increase in initial base deposit insurance assessment rates of 2 basis points, as described below. The FDIC is also concurrently publishing a notice of proposed rulemaking to propose adoption of these higher assessment rates, beginning with the first quarterly assessment period of 2023.

The Amended Restoration Plan

[3] As used in this Notice, the term "bank" is synonymous with the term "insured depository institution" as it is used in section 3(c)(2) of the FDI Act, 12 U.S.C. 1813(c)(2).

Therefore, the FDIC amends the Restoration Plan adopted on September 15, 2020, as follows:

1. FDIC will increase initial base deposit insurance assessment rates uniformly by 2 basis points for all insured depository institutions (IDIs).

2. The FDIC will have the accompanying notice of proposed rulemaking proposing to increase initial base deposit insurance assessment rates uniformly by 2 basis points, effective the first quarterly assessment period of 2023, published in the **Federal Register** as soon as possible.

3. The FDIC projects that the rates proposed in the notice of proposed rulemaking would increase the likelihood that the reserve ratio would be restored to 1.35 percent by September 30, 2028.

4. The FDIC will continue to monitor deposit balance trends, potential losses, and other factors that affect the reserve ratio.

5. At least semiannually, the FDIC will update its analysis and projections for the fund balance and reserve ratio and, if necessary, recommend any modifications to the Amended Restoration Plan.

6. This Amended Restoration Plan shall be implemented immediately.

To meet the statutory requirement, the reserve ratio must be restored to at least 1.35 percent no later than September 30, 2028, the statutory deadline by which the reserve ratio must be restored to the statutory minimum of 1.35 percent.[4]

Federal Deposit Insurance Corporation.

By order of the Board of Directors.

Dated at Washington, DC, on June 21, 2022.

James P. Sheesley,

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[4] The reserve ratio is based on total estimated insured deposits at the end of a given quarter. The FDIC will use data as of September 30, 2028, the first quarter-end date for which the reserve ratio will be known after September 15, 2028, the end date of the 8-year period.

Assistant Executive Secretary.

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